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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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RUEHAK/AMEMBASSY ANKARA 2802
RUEHBJ/AMEMBASSY BEIJING 0624
RUEHKO/AMEMBASSY TOKYO 0500
RUEHIT/AMCONSUL ISTANBUL 1076
RUCPDOC/DEPT OF COMMERCE WASHDC
RHMFIUU/CDR USCENTCOM MACDILL AFB FL
RUEAAIA/CIA WASHDC
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UNCLAS SECTION 01 OF 02 ASHGABAT 001039

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SUBJECT: CATERPILLAR EXEC NOTES CHALLENGES, BUT "IN TURKMENISTAN TO STAY"

REF: ASHGABAT 925

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: During a September 26 meeting, Vladimir Naumov, General Manager of Zeppelin Caterpillar Turkmenistan JV said while President Gurbanguly Berdimuhamedov continues his predecessor's hands-on habits in terms of making most sales-related decisions, he nonetheless is focusing less on business than his predecessor, complicating Zeppelin Caterpillar's efforts to move business forward. Zeppelin Caterpillar is also facing a number of other challenges in adjusting its strategy for Turkmenistan's new business environment Naumov said. For example, the company is facing growing competition from Komatsu, which both offers lower-priced products and benefits from the Japanese government's more business-oriented foreign policy. That said, Caterpillar plans to stay in Turkmenistan for the long term. It also is hoping to break into new local markets by collaborating with U.S. oil and gas firms, perhaps through a contract offering licensing, financing, and equipment, all in one. END SUMMARY.

BERDIMUHAMEDOV HAS OTHER PRIORITIES...SO WHO IS DOING BUSINESS?

¶3. (SBU) Over lunch with econoff September 26, Vladimir Naumov, General Manager of Zeppelin Caterpillar Turkmenistan JV, a long-time player in Ashgabat's expatriate business circles, shared observations on the changes in the business climate which have taken place since Gurbanguly Berdimuhamedov became president of Turkmenistan in February 2007. According to Naumov, Berdimuhamedov is paying less attention to business and more to politics. Pointing out that Berdimuhamedov did not meet with a visiting Caterpillar executive in March, Naumov claimed that the president is meeting with fewer foreign companies than his predecessor, Saparmyrat Niyazov. This had lead to a longer delay than in the past on reaching decisions on contracts. Naumov

estimated that 90% of Zeppelin's ministry partners or government contacts have changed since Berdimuhamedov became president. Because new ministry officials are hesitant to develop relationships with foreigners or foreign business contacts, Naumov now has trouble finding someone who can discuss deals.

TRYING TO MAKE SENSE, WHERE THERE IS NONE. BUT DON'T WORRY, WE DON'T PAY BRIBES.

¶4. (SBU) Naumov said that Turkmenistan's officials, who under Niyazov knew they would only rarely spend more than a few months in any one office, often may make shortsighted business decisions because they will not have to deal with the consequences. As a result, a ministry official may indicate one thing in a meeting, then make a business decision that does not make sense or contradicts signals in the meeting. Naumov also suggested that Zeppelin, which practices U.S. business standards, may be at a disadvantage in the bidding process because it does not pay bribes.

DESPITE CHALLENGES, HERE TO STAY

¶5. (SBU) Naumov claimed ministers are not in a position to make informed business decisions, and price is their only consideration. Lower-level officials understand day-to-day needs and value Caterpillar's quick-response and on-site customer service -- one of the company's main strengths -- but many higher-level Turkmenistan officials are reluctant to pay for this service. Naumov agrees with other foreign businessmen in Ashgabat that the government of Turkmenistan deliberates on contracts for a long time, but expects immediate delivery when it reaches a decision. This can

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create difficulties, since the construction industry is currently exploding worldwide, and keeping adequate stock of Caterpillar's wide product line on hand is a challenge. However, if Caterpillar cannot supply the requested equipment, a competitor -- in Turkmenistan, the Japanese company, Komatsu -- will find a way to fill the order on short notice. (NOTE: Turkmenistan recently gave Komatsu a contract for \$54 million of road construction equipment. END NOTE.) Despite these challenges, Zeppelin has long-term plans to remain in Turkmenistan.

PLEASE ADVOCATE FOR US

¶6. (SBU) Naumov stated several times that Japanese government diplomacy is basically economic advocacy work on behalf of Japanese business, which gives Komatsu a large advantage. He also said that Japanese companies write contracts for projects, and include financing and equipment in the contract. Naumov showed interest in the oil sector, and in partnering with U.S. firms, pointing out that Caterpillar otherwise may miss opportunities in Turkmenistan's unique business climate. Naumov also enthusiastically mentioned that, during a lunch with U.S. business leaders in New York this week, Berdimuhamedov expressed interest in establishing a business council for the United States, similar to the Japanese governmental organization which promotes Japanese business in Turkmenistan.

¶7. (SBU) COMMENT: Post has been hearing rumors that Zeppelin Caterpillar, which did a profitable business under the prestige name-oriented Niyazov, is now facing more difficulties than Naumov let on. At the heart of this may be a wish on Berdimuhamedov's part to try to wean Turkmenistan away from large-ticket purchases from prestigious companies in cases where minimal differences in quality do not justify paying higher costs -- a policy which we are also seeing in the areas of agricultural equipment. That said, Turkmenistan's uniquely difficult business climate and inefficient financial sector as exemplified by the top-centered power structure and the dual exchange rate may require creative support from the Commerce Department going

beyond what is currently or usually offered to assist U.S.
businesses in gaining a foothold. END COMMENT.
HOAGLAND